

VZCZCXRO0770  
RR RUEHFK RUEHGH RUEHKSO RUEHNAG RUEHNH  
DE RUEHKO #5678/01 3620642  
ZNR UUUUU ZZH  
R 280642Z DEC 07  
FM AMEMBASSY TOKYO  
TO RUEHC/SECSTATE WASHDC 0628  
INFO RUEHBJ/AMEMBASSY BEIJING 0850  
RUEHLO/AMEMBASSY LONDON 1919  
RUEHMO/AMEMBASSY MOSCOW 2037  
RUEHFR/AMEMBASSY PARIS 5909  
RUEHUL/AMEMBASSY SEOUL 6910  
RUEHFK/AMCONSUL FUKUOKA 5202  
RUEHHK/AMCONSUL HONG KONG 6400  
RUEHNAG/AMCONSUL NAGOYA 3900  
RUEHNH/AMCONSUL NAHA 7598  
RUEHOK/AMCONSUL OSAKA KOBE 8867  
RUEHKSO/AMCONSUL SAPPORO 5832  
RUEHGH/AMCONSUL SHANGHAI 0295  
RUEHRC/DEPT OF AGRICULTURE WASHINGTON DC  
RUEATRS/TREASURY DEPT WASHDC  
RHMCSUU/DEPT OF ENERGY WASHINGTON DC  
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC  
RUEHIN/AIT TAIPEI 6828  
RHEHAAA/NSC WASHDC  
RUEHGV/USMISSION GENEVA 3205  
RUEHBS/USEU BRUSSELS

UNCLAS SECTION 01 OF 17 TOKYO 005678

SIPDIS

SENSITIVE  
SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [EAGR](#) [ETRD](#) [JA](#)

SUBJECT: SUB CABINET MEETINGS, DEC. 6-7, U.S. URGES MORE  
AMBITIOUS ECONOMIC ENGAGEMENT

Summary

1. (SBU) Assistant to the President and Deputy National Security Advisor for International Economic Affairs Daniel Price led a deputies-level team from USTR, Treasury, Agriculture, Commerce, and State for the U.S.-Japan Economic Sub-Cabinet Dialogue meetings on December 6-7 in Tokyo. The over-arching message, stated in private meetings with senior Japanese counterparts as well as in public media events, was that we need to put the U.S.-Japan bilateral economic relationship on a more ambitious track, in particular in support of global trade liberalization. More can be done to coordinate on climate and energy policies, and to share economic policy strategies toward China. Progress was limited on key issues, including allowing imports of all ages and products of U.S. beef; cooperating on food safety; enhancing foreign direct investment opportunities; pricing for innovative U.S. pharmaceutical products; and greater engagement and ambition in the Doha Development Agenda. Additionally, the regional architectures Japan has completed to date have not included the United States, although the U.S. market is likely the single most important driver of East Asian private sector integration.

2. (SBU) Japanese representatives repeatedly stressed their desire to work more closely with the United States, but often noted domestic political factors -- chiefly the opposition party's control of the Upper House of Japan's Diet which also impedes the Japanese government's ability to proceed with any economic policy reforms. Japan agreed in principle with the U.S. view that bilateral or plurilateral trade or investment arrangements must truly liberalize economic dealings and positively shape globalization. The two sides committed to closer cooperation on intellectual property rights protection; secure trade; development assistance; and energy security, and climate change. Both sides looked forward to close coordination in the coming months, including

in the Major Economies and G-8 processes. End Summary.

#### Delegation List

##### Japan

Masaharu KOHNO, Deputy Minister, Ministry of Foreign Affairs (MOFA);  
Yoichi OTABE, Director General, Economic Bureau, MOFA;  
Masakazu TOYODA, Deputy Minister for International Affairs, Ministry of Economy, Trade and Industry (METI);  
Naoyuki SHINOHARA, Deputy Minister for International Affairs, Ministry of Finance (MOF);  
Takehiko NAKAO, Senior Deputy DG, International Bureau, MOF;  
Masayuki YAMASHITA, Counselor, Minister's Secretariat, International Affairs, Ministry of Agriculture, Forestry and Fisheries (MAFF);  
Kousuke SHIBATA, Deputy Minister for International Affairs, Ministry of Land, Infrastructure and Transportation (MLIT);  
Yutaka YOKOI, Minister for Economics, Embassy of Japan in the United States

##### USG

Daniel M. Price, Assistant to the President for International Economic Affairs and Deputy National Security Advisor for International Economic Affairs, National Security Council;  
David McCormick, Under Secretary for International Affairs, Department of Treasury;

TOKYO 00005678 002 OF 017

Mark E. Keenum, Under Secretary, Farm and Foreign Agriculture Service, Department of Agriculture;  
John Veroneau, Deputy U.S. Trade Representative, Office of the U.S. Trade Representative;  
Christopher Padilla, Acting Under Secretary for International Trade Administration, Department of Commerce;  
Daniel S. Sullivan, Assistant Secretary for Economic, Energy and Business Affairs, Department of State;  
Robert F. Cekuta, Minister-Counselor for Economic Affairs, U.S. Embassy in Japan;

(also attending)

A. Ellen Terpstra, Deputy Under Secretary of Agriculture, USDA;  
Robert Dohner, Deputy Assistant Secretary for Asia, Treasury;  
Kurt Tong, Director for Asian Economic Affairs, NSC  
Michael Beeman, Deputy Assistant USTR for Japan, USTR;  
Jessica Webster, Chief for Economic Affairs, Japan Desk, State;  
Ian Clements, Japan Officer, Commerce.

#### Pushing Japan to Help Fulfill the Promise

13. (SBU) Going directly to the principal U.S. message for the meeting, DNSA Price noted that U.S.-Japan economic relations are not living up to their promise and are lagging behind our political-security interaction. He asked the Japanese side to work with the United States to find a way to make our dialogue more relevant and productive and put relations on a more ambitious track. The United States wants Japan to be more of a full partner both regionally and globally. Price noted the need to resolve long-standing bilateral economic issues that hamper U.S.-Japan relations and to begin to fulfill the promise of what cooperation between the world's two largest economies can realize. So far, Price noted, the "scorecard" for concrete activities undertaken in the Sub-Cabinet process was poor. From the U.S. perspective, only activities related to energy security deserved an "A."

14. (SBU) Remarking on DNSA Price's strong opening statement, Deputy Foreign Minister Kohno observed that although the U.S. - Japan economic relationship is mature, ties are complex and the two societies continue to hold different values on some questions. Kohno thanked Price for his strong opening statement and observed the level of maturity of the U.S.-Japan economic relationship is, to some extent, an enemy of progress. Ties between the U.S. and Japan are complex and the two societies continue to hold different values on some questions. Moreover, the "score" for the relationship, Kohno added, should be a joint score, not just an assessment of Japan's performance. Taking the longer view, METI Deputy Minister Masakazu Toyoda commented that the bilateral agenda between Japan and the U.S. has become far more positive over the last 15 years.

15. (SBU) DNSA Price acknowledged the achievements cited by the Japanese side but emphasized USG concerns over drift or apathy in the relationship. Neither the bilateral Sub-Cabinet meetings nor Japan's upcoming G-8 presidency should simply issue statements and work plans that do not yield substantive progress. Commerce Acting U/S Padilla stressed that the lack of acute frictions in the U.S.-Japan relationship does not mean problems do not exist and pointed to the range of issues -- the Doha Development Agenda, approaches to China, that development of regional architecture in East Asia -- where opportunities for positive joint action by the U.S. and Japan might be lost.

TOKYO 00005678 003 OF 017

16. (SBU) DFM Kohno argued that much of the drift results from political uncertainties in both countries and pointed to the November Summit between President Bush and PM Fukuda as a sign of continued strong cooperation. Kohno also expressed annoyance at "anonymous criticisms" of Japan's position on economic issues that had appeared in the U.S. press in the run-up to the meeting. Kohno referred to PM Fukuda's interest in revitalizing intellectual exchanges between the U.S. and Japan to illustrate his country's interest in better bilateral communication and to promote the global role of the relationship.

-----  
"Concrete Activities"  
-----

Secure Trade  
-----

17. (SBU) A/S Sullivan noted progress on secure trade cooperation through Secure Trade digital video conferences and a late November visit to Japan by a joint Department of Energy and Department of Homeland Security team, and work on the U.S. Customs Trade Partnership Against Terrorism (C-TPAT) and Japan's Authorized Economic Operator (AEO) programs. Acting U/S Padilla pointed out the U.S. Customs Commissioner and the EU's head of Customs were working together as part of the U.S.-EU dialogue and that it might be useful for U.S. and Japan customs authorities to meet. Deputy Trade Minister Toyoda stressed that secure trade is a Japanese government priority, but said Japan sees the need to balance security considerations with minimizing the burden of security measures on industry. The business community desires effective security systems which do not inhibit the smooth and efficient flow of goods. Japan would like mutual recognition between C-TPAT and Japan's AEO program, and Toyoda saw value in working too with the EU on mutual recognition to ensure integration.

18. (SBU) DG Otake noted the work in the G-8's Roma-Lyon Group on international criminal and terrorism issues and suggested this G-8 forum could also help ensure complementarity in bilateral and regional/global approaches. MOF's Deputy DG Nakao said his ministry, which oversees Japan Customs, is looking at how best to implement mutual

recognition in the Container Security Initiative (CSI). MOF had given a proposal to DHS over the summer and DSNA Price clarified the next step is a DHS response. GOJ officials plan to solicit specific feedback from business to "smooth out" problems as security programs are implemented. MLIT DG Shibata said his ministry enjoys good working level cooperation with the U.S. across a range of issues and he pointed to October's successful meetings in Osaka on land transportation.

¶9. (SBU) Both countries were moving ahead in developing a pilot program on Megaports, A/S Sullivan noted. Deputy Foreign Minister Kohno and Deputy Trade Minister Toyoda each expressed GOJ commitment to move ahead on this DOE initiative for radiological cargo screening, a goal echoed by MLIT. Implementation is a question of when, not if, Toyoda said. Kohno noted the Diet should approve a supplementary budget by March with a view to launch a pilot project by April. MLIT too echoed GOJ determination to move forward on Megaports. (Note: In separate meetings during the DHS and DOE visits in November, MOFA, MLIT and MOF representatives suggested it would take about two months to open the bid for the equipment and installation and about four months to install, making the pilot port operational around the end CY 2008. End note.)

TOKYO 00005678 004 OF 017

¶10. (SBU) DFM Kohno noted DHS and MLIT are cooperating well in the production stages of the Maritime Asset Tag Tracking System (MATTS) and moving toward initial tests (NOTE: MATT devices will be used to determine if a container has been tampered with while in transit. End note.)

¶11. (SBU) MLIT Deputy Minister Shibata reminded the U.S. delegation that, during an IMO-organized meeting, Japan invited the U.S. to contribute to a fund for the safety and security of the Malacca Straits. It would be a collaborative fund including, among others, Japan, the U.S., Malaysia, Singapore, and Indonesia. Shibata noted the U.S. Coast Guard had pledge to work on the issue. The U.S. side said they would meet with the Coast Guard on the issue.

#### FTA Information Exchange

-----

¶12. (SBU) MOFA Economic Affairs DG Otabe reviewed progress on the FTA information exchanges with the United States and indicated an interim report on the process could be finalized on December 7. According to DFM Kohno, the next set of information exchanges should include discussions of how to deal with resource-producing countries. Responding to DNSA Price on the reasons behind this interest, DG Otabe noted Japan has included provisions in its economic partnership agreements (EPAs) with Brunei and Indonesia that require signatories to be "transparent" with respect to introduction of laws or regulations that might restrict the export of energy or other resources. Observing the investment chapters of U.S. FTAs would prevent such behavior without such specific language, DNSA Price noted this Japanese clause resembled those the United States had included in agreements involving state enterprises of the former Soviet Union. METI DM Toyoda responded that the clause reflects Japanese concern over maintaining a stable energy supply and said the NAFTA treaty contained similar language.

¶13. (SBU) Agreeing the FTA information exchanges have been positive DUSTR Veroneau recommended the final report on the core FTA chapters should be ready by the time of the July G-8 Summit. He suggested the next round of information exchanges then focus on elements unique to Japanese and U.S. agreements with third countries. The overall aim, Veroneau stressed, should be to ensure the proliferation of trade agreements have a positive trade-creating, not trade-distorting, effect. In this regard the U.S. and Japan should show leadership and negotiate high-standard agreements that can be a model for other countries.

¶14. (SBU) Summarizing, DFM Kohno indicated while the report on the current exercise would be completed by the Lake Toya G-8 Summit, any further movement toward a U.S.-Japan free trade agreement would require a political decision that may need to wait until the next U.S. administration. After it was clarified that the report on FTA exchanges would describe the current state of each country's agreements without prescriptions for subsequent steps, DNSA Price emphasized the importance of developed economies maintaining high standards in their free trade agreements so as to avoid precedents that lower the bar for subsequent agreements worldwide. Although future tariff reductions might occur, rules were unlikely to change once an agreement was struck, he stressed.

¶15. (SBU) Deputy Trade Minister Toyoda responded that Japan looks at its EPAs as part of an evolving process that takes into account not only principles such as those in the WTO agreements, but also the individual capacities and sensitivities of the partner countries. One EPA does not

TOKYO 00005678 005 OF 017

necessarily preempt including something in a subsequent EPA in Japan's view, Toyoda said. Noting Japan always seeks high-standard agreements, Kohno cited recent experience with the Japan-ASEAN EPA where special treatment for least underdeveloped ASEAN members -- Cambodia, Laos, and Burma -- had been necessary in order to realize a successful conclusion.

#### Intellectual Property Rights

-----

¶16. (SBU) IPR discussions focused on cooperation and advancing common interests. Kohno mentioned as examples the Anti-counterfeiting Trade Agreement (ACTA) and the Patent Prosecution Highway, and then discussion turned to China, APEC and the WTO. On ACTA, Kohno noted the recent start of meetings in Geneva among the twelve partners, which include Japan, the U.S., the EU, and Canada. After successfully coordinating the public launch, the U.S. and Japan must work together to ensure we retain a high level of ambition and to draw in new participants. Particularly with countries new to the discussions, some of whom are skeptical and may prefer a slow process, we also need to push to keep negotiations moving quickly and steadily.

¶17. (SBU) GOJ officials noted the Patent Prosecution Highway pilot project has achieved good initial results and reporting Japan is developing a work plan it intends to promote. The project is expected to reduce patent examination periods from a current average of 26 months down to three months. Toyoda reported Japan has also been working to improve bilateral cooperation with the United Kingdom, Korea, and Germany, and offered to assist with U.S.-U.K. cooperation as needed. Kohno also expressed Japan's desire to work jointly to promote the APEC Anti-Counterfeiting and Piracy Initiative and other IP work in that forum.

¶18. (SBU) Both sides stressed the importance of improving IPR protection in China, but described different approaches to reaching that goal. DUSTR Veroneau stressed that China's IPR regime is a common concern and at times the U.S. has worked alone to press China to improve, so he welcomed support from Japan and the EU. Acting U/S Padilla noted China suspended bilateral talks with the U.S. on intellectual property because of U.S. dispute-settlement filings at the WTO. It is important to stress to China, however, that suspending the bilateral dialogue may simply convince industry the only option is to push more problems into the WTO dispute settlement mechanism, U/S Padilla observed.

¶19. (SBU) Toyoda stated that Japan does not seek to weaken efforts on ACTA to encourage China on IPR, but recognizes that legal systems differ. Japan wants to maintain a high level of mutual respect with other countries, seeing this as



the most effective course in the long run and likely to achieve the best results. The Japanese government, Toyoda continued, fully agrees on the need to work toward high standards. He hoped the U.S. would understand this point given the importance of cooperating required to send a consistent message to China and to maintain pressure on Beijing as appropriate. Veroneau also emphasized the importance of energizing our IPR work in APEC.

#### Transparency

120. (SBU) Deputy FM Kohno reviewed the information sharing on transparency issues and characterized the process as highly beneficial from Japan's perspective. He noted Japanese government efforts to promote transparency in other

TOKYO 00005678 006 OF 017

countries in Asia, in particular in China and Vietnam, through official development assistance and suggested boosting U.S.-Japan cooperation by using APEC as a forum to improve transparency among member economies. METI Deputy Minister Toyoda seconded Kohno's comments and recounted how Japan had inserted transparency chapters in investment agreements with Laos and Cambodia.

121. (SBU) DUSTR Veroneau emphasized that the USG still hears many complaints from U.S. firms about the lack of transparency in the Japanese government's advisory groups that deliberate regulatory policy. The concern appears across a number of sectors in the U.S.-Japan regulatory reform initiative. He said the United States would like APEC to examine the question of transparency within the region and, responding to a question from Kohno, noted USTR has created a trade capacity-building office to help countries meet their WTO obligations, including with respect to transparency. Kohno stated Japan has substantial experience promoting transparency within Asia and cited public-private joint efforts in China as an example. Treasury DAS Dohner emphasized the need for transparency in regulating financial services. Such transparency is especially important if Japan is serious about bolstering Tokyo's role as an international financial center.

122. (SBU) Price noted U.S. business representatives cite the lack of sufficient transparency in regulatory matters as a primary reason for the low stock of foreign direct investment in Japan. Non-Japanese firms continue to lack access to timely and accurate information on Japanese government policies affecting their operations. Japan should improve its own system to be an effective model for others in the region, DNSA Price stressed. Asserting the level of transparency in Japan's regulatory system is similar to that of the U.S., Toyoda asked for examples of specific problems U.S. companies have encountered. A/S Sullivan reported the absence of a meaningful government notice and comment procedure had been the top issue representatives of the American Chamber of Commerce in Japan (ACCJ) had raised with the U.S. delegation.

123. (SBU) MOF International Bureau Deputy Director Takehiko Nakao said Japan, following the collapse of the 1980's "bubble economy," had abandoned much of the old system of administrative guidance. Nevertheless, some bureaucratic discretion is still needed for effective financial regulation. It was important, Nakao continued, to look at current cases and not to rely on impressions shaped by the past. Japan's low level of FDI, he stated, also reflects a high domestic savings rate and is not simply the result of inadequate transparency. DNSA Price was doubtful opinions U.S. business people had voiced that morning were based purely on experience of earlier decades. DFM Kohno suggested the United States provide a list of U.S. firms' specific complaints on transparency to which the Japanese government could then respond. DNSA Price agreed the U.S. should be able to make concrete recommendations to Japan on

transparency, but stated Japan should also acknowledge the linkage between transparency and its low level of foreign investment.

## Energy

¶24. (SBU) Both sides characterized cooperation on energy security as excellent. Toyoda raised five points for further work. First, Japan and the United States should look for ways to deal with rising oil prices. Toyoda suggested working together to send a coordinated message from consumer

TOKYO 00005678 007 OF 017

countries to leading oil producing states through the International Energy Agency (IEA). Second, he proposed cooperation between the United States and Japan in finding a way to bring India and, more importantly, China into the IEA.

It would be difficult, Toyoda acknowledged, as neither country is a member of the OECD, a requirement to join the IEA. Third, Toyoda called for deepening cooperation between METI and the U.S. Department of Energy, especially to address developing country interest in peaceful uses of nuclear energy. He also called for more systematized U.S.-Japan collaboration on new energy technologies, a point, Toyoda believed, could be discussed in the G-8.

¶25. (SBU) Finally, Toyoda emphasized the planned G-8 energy ministerial in Aomori Prefecture, location of Japan's advanced nuclear waste processing facility, where the U.S. and Japan have an opportunity to send a joint message on nuclear power development. DFM Kohno stated several Asian countries -- notably Indonesia and Vietnam -- are interested in nuclear energy, but lack the technological, legal, and human resource infrastructures to pursue it. The U.S. and Japan should find a way to help, Kohno said, and he indicated Japan plans to introduce new initiatives on this issue.

¶26. (SBU) A/S Sullivan agreed U.S.-Japan cooperation on energy has been excellent. He noted, as part of follow-up to past G-8 meetings, the IEA has been asked to score countries on fulfilling their G-8 commitments. In addition, he noted the five-party energy outreach ministerial as a useful exercise to enhance cooperation. The U.S. agrees with Japan on looking at the possibilities for bringing China into the IEA, a move that would be especially helpful in light of increasing cooperation on strategic petroleum reserves. Finally, on nuclear energy initiatives, Sullivan acknowledged close U.S.-Japan cooperation in GNEP and stressed any approach to developing countries needs to be based on GNEP principles. DG Otabe followed up noting the G-8 members are waiting for Germany to report the IEA "scorecard" and to stress the importance of the work of the G-8's Nuclear Safety and Security Group and Non-proliferation Directors' Group with respect to nuclear energy discussions under the G-8.

## Food Safety

¶27. (SBU) USDA U/S Keenum presented a proposal to establish a working group of technical experts to exchange information on food safety issues and report to the Sub-Cabinet in time for the next meeting. Deputy Trade Minister Toyoda stated METI and the Center for Disease Control (CDC) had agreed to exchange information and facilitate personnel interaction through a series of food safety seminars. The first of these was held in November 2007 and was very successful, he said. METI would like to see such exchanges continue.

¶28. (SBU) MAFF Counselor Yamashita said his ministry would consider the proposal, but questioned the need for another working group as many food safety issues are already discussed in such groups as the U.S.-Japan Trade Forum and the U.S.-Japan Regulatory Reform and Competition Policy Initiative. MHLW's Ueda, however, flatly stated his Ministry would refuse to participate in this initiative as

food safety should be based on science and not discussed in the context of trade or economics. The topic is sensitive politically, he said, and MHLW fears discussing it in the Sub-Cabinet framework would do more damage to the bilateral relationship.

¶29. (SBU) DNSA Price said this rejection of the proposal without due consideration is indicative of the Japanese

TOKYO 00005678 008 OF 017

government,s unwillingness to engage meaningfully on any number of economic matters of importance to the bilateral relationship. The idea behind the Sub-Cabinet is to be able to discuss every economic issue of importance to the two sides and to have all pertinent agencies present; the MHLW reaction was outrageous. U/S Keenum too noted the USG intent is to share science among experts so that commerce between our two countries is not needlessly interrupted. What we need to do is to learn when there is an incident that affects food safety, how do we react and inform the public. Although Kohno stressed that Japan wanted to communicate with the United States on food safety matters, the MHLW Deputy Minister continued to insist the Sub-Cabinet was not the appropriate framework to discuss the question given Japan,s domestic political situation.

-----  
Regional Issues  
-----

Regional Architecture  
-----

¶30. (SBU) DFM Kohno opened by pointing to the historical factors underpinning development of East Asia's regional economic architecture. He emphasized the need for institutions to develop not only in response to new regional and global challenges, but also because of the continued need for confidence-building measures and the tremendous differences in wealth and overall development among countries in the region. Creating current institutions -- the ASEAN Regional Forum, ASEAN Plus 3, and the East Asian Summit (EAS) -- had been a painstaking process realized only within the past decade, Kohno said. The main proposals for a broader economic architecture, he added, existed only in the form of studies.

¶31. (SBU) METI Deputy Minister Toyoda explained Japan's strategy is two-fold: a network of bilateral economic partnership agreements promoting trade and investment liberalization and a broader regional architecture addressing the gaps in development among Asian economies. He added the recently established Economic Research Institute for Asia (ERIA) attached to ASEAN would support this effort. Toyoda noted U.S. involvement in the region is still needed and indicated APEC remains a good forum for U.S.-Japan cooperation in this regard. The U.S.-proposed Free Trade Area of the Asia-Pacific (FTAAP), based on APEC, is a future goal toward which progress should be accelerated, Toyoda stressed. Japan's bilateral agreements with APEC members, along with regional initiatives based on ASEAN Plus 3 or the EAS countries, could serve as "building blocks" for an FTAAP. In addition, Toyoda suggested establishing more "horizontal" agreements among some APEC member economies to lay groundwork for an eventual FTA covering all of APEC.

¶32. (SBU) DNSA Price responded that Japan's approach to regional architecture makes it appear that Japan does not want a free trade agreement with the United States and is pursuing agreements that exclude it even though the U.S. market remains the main force for regional economic integration in Asia. As a result, regional economic integration is getting stronger at the expense of American consumers. Japan, DNSA Price noted, says it will deal with the United States on an FTAAP at some point in the future, but the immediate fact is that the United States is not a



part of these emerging architectures. The two countries each seem to be going their own way on this issue, he stressed.

¶33. (SBU) Assistant Secretary Sullivan added that close

TOKYO 00005678 009 OF 017

cooperation on regional security between Japan and the U.S. seems to be lacking on the economic side. Commerce Acting U/S Padilla observed Japan seems to believe it can deal with the rise of China as an economic power on its own or with just the assistance of other countries in Asia. Such an approach is Japan's choice to make, but, in Padilla's view, is not likely to succeed. Asking rhetorically whether the United States and Japan were in an "FTA race," DNSA Price pressed the Japanese side to indicate what, in their view, the role of the United States in Asia-Pacific economic integration should be.

¶34. (SBU) DFM Kohno, calling the U.S. side's comments "confrontational," said Japan wants regional architecture in Asia to develop in a "balanced" way. In addition, Asians want to find their own regional identity. Kohno noted Japan will host APEC in 2010 and the United States will do so in ¶2011. Those years will be the opportunity to discuss broader regional architecture, he stated. Finance Ministry DG Nakao, citing the growing importance of intra-regional trade to Japan, argued the Japan-proposed architectures for both trade and financial issues were not designed to exclude the United States (or the IMF). Nevertheless, during the Asian Financial Crisis in 1997, it became clear Asian countries lacked effective mechanisms for economic coordination in the face of a "contagion" spreading through the increasingly integrated regional economy.

¶35. (SBU) Noting ASEAN leaders had stressed to President Bush the importance of the United States in driving regional economic integration, DNSA Price pointed to an inconsistency in Japan's approach between the goal of establishing a "soft" regional architecture on political issues and hesitancy to move ahead on FTAAP. Kohno cited the studies on different regional architecture proposals underway and suggested they would form the basis for discussions at APEC in 2010 and ¶2011. DG Otake further postulated that ASEAN Plus 3, Japan's "ASEAN Plus 6" proposal, and APEC can all complement each other. Different fora, however, might be better suited to different issues. North Korea, for example, is the topic in the Six-party Talks and at the ARF, while the problem of yellow dust originating in China is probably better handled in the China-Japan-Korea trilateral meetings on environment matters. This situation does make the existence of different fora contradictory, Otake stressed. Although FTAAP might not be achievable in the near term, evolution toward such a goal, as had been seen in the context of APEC's Bogor Declaration, is possible.

¶36. (SBU) Summarizing, DFM Kohno noted the U.S. side had registered its concern over Japan's regional architecture proposals. DNSA Price added the recent first meeting between PM Fukuda and President Bush had gone well because both sides had sought such an outcome. Other issues might arise in subsequent meetings between the two leaders where agreement might be more difficult, Price suggested. Kohno responded PM Fukuda had indicated he wants to find a way to build synergies between Japan's relations with Asia and its ties to the United States.

Burma

-----

¶37. (SBU) Assistant Secretary Sullivan expressed appreciation for Japan's decisions to restrict assistance to Burma following recent actions by the Burmese regime against anti-government protesters and opposition parties. He noted Japan had indicated it was reconsidering assistance programs for Burma. The United States and Japan together had sent a good message to the Burmese regime that it could not do

"business as usual" following the suppression of its opponents, A/S Sullivan observed.

138. (SBU) DFM Kohno agreed the U.S. and Japan should send the same message to the Burmese regime and expressed appreciation for the work of UN Special Envoy Gambari. ASEAN was also making an effort to influence Burma's regime, Kohno added. He observed, however, Burma's natural gas resources are a major source of income for the ruling junta and multinational companies -- even U.S. firms -- are participating in gas exploration projects there. Only a few states, Kohno stated, have leverage on the Burmese regime: China, India, Thailand, and -- on a diminishing basis -- Japan. Japan had traditionally enjoyed good relations with Burma and canceling construction of a GOJ-funded human resource development center as a part of new sanctions had been a difficult decision because of the benefit the center could have brought the Burmese people. The U.S. sanctions, Kohno asserted, frequently made life more difficult for the average Burmese, although he claimed to understand the U.S. agenda and the high degree of political attention paid to the Burma issue.

139. (SBU) A/S Sullivan responded that recent U.S. sanctions had been targeted to put maximum pressure on the regime without causing undue hardship for the Burmese people. Regarding Kohno's statement about U.S. companies operating in Burma, the company concerned had found itself in a situation where withdrawing from Burma would have resulted in a substantial payment to the regime. Kohno observed Japanese companies in Iran faced a similar situation. Kohno continued that the Japanese government would provide only humanitarian assistance to Burma along with canceling the human resources center project. DNSA Price stated his understanding is that only one U.S. energy company has interests in Burma and that was through passive investment in a pipeline. He asked whether Japan had information regarding U.S. companies engaged in gas exploration in Burma as well as in Iran's energy sector. A/S Sullivan asked whether Japan will ban new private investment in Burma or in Iran. METI VFM Toyoda said he would endeavor to confirm Japan's position on A/S Sullivan's question.

#### Approaches to China

140. (SBU) Kohno characterized Japan's December 1-2 High Level Economic Dialogue with China as the first opportunity for Japan to have cross-sectoral discussions with that country. Contrary to expectations, he said, there had been a "frank exchange" of views. Japan had reviewed its experience with the "economic bubble" and urged China to revalue its currency; Japan also raised future cooperation on trade and investment. The Chinese side said economic overheating is a concern. Kohno commented on the improved climate between Japan and China and the positive political momentum the meeting had established in advance of the upcoming visit by the Japanese Prime Minister.

141. (SBU) Deputy Finance Minister Naoyuki Shinohara added he had been surprised by the frankness of the talks and had found them fruitful. While there was nothing new on exchange rate issues, the two sides did talk about the need for flexibility and the Japanese government raised the issue of irresponsible lending, which elicited no response from the Chinese side. The finance ministries had also met, he said. China, Shinohara continued, is an area where Japan and the U.S. could accomplish much more together than alone.

142. (SBU) Treasury Under Secretary McCormick agreed with

Shinohara,s evaluation. At the upcoming Strategic Economic Dialogue, the U.S. message would be that we were committed to market-based currency valuation. U/S McCormick continued that the Chinese did not feel they had adequate control over monetary policy. The U.S. side reviewed areas of discussion with China beyond financial regulation and currency valuation, including product safety, energy and environment, financial services liberalization, and investment. The U.S. is actively exploring how to move forward on a Bilateral Investment Treaty (BIT) with China and also sensed movement on energy and environment with China.

¶43. (SBU) Commerce Acting U/S Padilla elaborated on the need for dialogue and negotiation, appropriate WTO actions to enforce rights, and, where justified, application of anti-dumping measures. He said that the EU that day had initiated its first anti-dumping action against China. The U.S. side noted the EU had been extremely interested in talking with us during the recent Transatlantic Economic Council about working together on China. The U.S. side also emphasized the long-term, strategic nature of the SED and explained other fora such as the Joint Commission on Commerce and Trade are used to take up issues such as China,s use of industrial policy and technology standards to benefit Chinese companies; product safety; and government procurement. The United States saw areas of common interest with Japan, perhaps working together in the WTO, but also noted that a "gang-up approach" could be counterproductive in certain cases.

¶44. (SBU) Toyoda agreed the U.S. and Japan should not "gang up" on China, and that a "coordinated approach" would make more sense than a "joint approach." He agreed that a number of shared concerns exist. The East Asia Summit, however, is not a good forum at which to discipline China, Toyoda continued, because the United States is not a member.

#### Doha and WTO Issues

¶45. (SBU) Opening on the Doha Development Agenda, Kohno said he expected agreement on modalities no earlier than the end of March 2008, by which time there should be a balanced text, supported by a large number of partners. He asked what the U.S. domestic context for a discussion of Doha would be at that time. Regarding tariffs on environmental goods, Kohno supported the U.S. position to end duties on imports of such products. The U.S. concept was the same as Japan,s suggestion to the United Nations in September, he claimed, and both countries need to turn their attention to moving the process forward.

¶46. (SBU) The METI Deputy Minister Toyoda added that countries should look to complete the DDA during the current U.S. administration; noting that "we are running out of time." DNSA Price restated the message that all members of the Sub-Cabinet had given during their meetings, i.e., that successfully completing the DDA is President Bush,s highest foreign economic policy priority.

¶47. (SBU) DUSTR Veroneau emphasized the need to gain commitments by advanced developing countries, led by Brazil, to trade liberalization, by focusing on substance and seeking reasonable gains. Japan and the United States need to remain coordinated in keeping the pressure on these partners. Regarding trade promotion authority, WTO members need to focus on their domestic situations respectively and on what we can obtain in Geneva. The United States must see a good substantive result in the next series of talks to keep the DDA on track. If the United States and Japan and other key

TOKYO 00005678 012 OF 017

WTO partners work out agreements with demonstrable benefits for our economies, legislatures would be reluctant to undo those gains.

¶48. (SBU) DNSA Price expressed concern that Japan was invoking Trade Promotion Authority (TPA) as an excuse for not wanting to negotiate seriously. If the United States were to get a good agreement, he assured, President Bush would sign it. Commerce Acting U/S Padilla too said it would be hard for Congress to walk away from a signed multilateral agreement, adding that a deal needed to be concluded in the current administration. By the end of January, he continued, countries would be able to put together the big picture and assess their overall interest.

¶49. (SBU) DNSA Price added he brought a letter for Prime Minister Fukuda from the President which asked Japan to set a high level of ambition for the Round. Agriculture U/S Keenum added U.S. agricultural interests are ready to support a Doha result that is ambitious on market access. The United States, he continued, is putting real cuts in payments to farmers on the table, but needs real market access to secure U.S. farm sector support. He commended Japan's support for the U.S. position in support of in-kind food aid.

¶50. (SBU) Ministry of Agriculture, Forestry, and Fisheries Counselor Yamashita said that Japan was a major food importer and, despite differences, has a good relationship with the United States. He hopes to sustain this through the completion of the DDA.

#### Agricultural Reform

¶51. (SBU) Turning to agricultural reform, Yamashita continued that Japan remains engaged and had cut trade-distorting subsidies, recalling measures approved in April 2007 to stabilize farms. However, the opposition Democratic Party of Japan sought to include legislative measures to compensate farmers for differences between cost and unit price. The LDP is reconsidering eligibility for such payments. Still, he asserted, the Japanese government wanted to advance reforms.

¶52. (SBU) U/S Keenum applauded Japan for the April 2007 farm legislation to move toward "green box" (i.e., non-trade-distorting) payments. He noted a contradiction, however, in that Japan wants to get away from small, inefficient farms and to provide incentives to grow based on subsidies, but to quality farmers must raise multiple crops. With an average farm size of four hectares, raising multiple crops would be difficult. Yamashita disagreed, saying multiple crops were not a precondition for green box supports. U/S Keenum acknowledged the USG faces its own challenges in reconciling policy goals with farm legislation, noting that the current draft Farm Bill includes subsidy measures the U.S. Administration opposes. He added it seems unlikely Congress will pass a farm bill in 2007. This situation could have WTO ramifications if the United States had to implement the 1949 farm bill in the absence of new legislation.

#### Development Assistance/TICAD IV

¶53. (SBU) MOFA Deputy Minister Kohno -- Japan's G-8 Sherpa -- said development would be a major theme for Japan's G-8 Presidency. Because progress toward the Millennium Development Goals would be reviewed in 2008, Japan anticipated criticism of the G-8 and asked how best to

TOKYO 00005678 013 OF 017

approach the topic. He suggested promoting G-8 cooperation in global health, noting the exchange on this point between President Bush and Prime Minister Fukuda. The issue had a "vertical aspect" of dealing with specific diseases and a "horizontal" aspect related to improving health systems. In addition to attacking a disease like malaria, improving water/sanitation as well as education was important. Furthermore, Japan wants to approach issues related to Africa

through the TICAD conference, Kohno said, focusing on a) sustainable development, through trade and investment promotion, b) empowering Africans in post-conflict countries to help themselves better, and c) peace consolidation or peace-building. TICAD was based on the principles of respect for African ownership of its development and demonstrating donor support; Japan also wants to promote Asia-Africa cooperation through the conference.

¶54. (SBU) On the future of the Strategic Development Alliance (SDA), Kohno expressed concern over a perceived decline in momentum. Positive outputs included case studies on Pakistan and Indonesia; discussion of themes like disease in Africa; and support in Pakistan,s FATA region for the fight against terrorism. Still, the SDA, he said, needs revitalization.

¶55. (SBU) Kohno also raised China,s activities in African and other developing countries, saying its behavior, such as lending to countries which had received debt relief and using Chinese labor on infrastructure development projects rather than local workers, undermined internationally agreed approaches to furthering development. Moreover, China,s approach toward resource-rich countries is not transparent. He noted the Heiligendamm process would start soon and the question of how to allow emerging countries to engage should be considered.

¶56. (SBU) A/S Sullivan focused on the importance to the G-8 of follow-through on previous initiatives. He cited the President,s announcement of an additional \$30 billion over five years in funding for global HIV/AIDS programs as an example of U.S. follow through on a G-8 commitment. On the SDA, A/S Sullivan invited Japan to offer suggestions on next steps. He noted in some areas the SDA works well. The SDA represents strategic coordination on aid and a sign of a mature relationship between Japan and the United States. Under the SDA, guidance came from the capitals, but coordination needs to take place on the ground. Africa, A/S Sullivan noted, also seems ripe for strategic coordination and he asked for Japanese ideas. U/S McCormick added one problem is Africa is not a two-way dialogue and suggested the U.S. and Japan work together on a multilateral approach to African development.

¶57. (SBU) Noting the U.S. and Japan are the largest donors in Afghanistan, A/S Sullivan strongly urged Japan to complete the Kandahar-Herat ring road. The project had been underway for about three years, he emphasized, and Japan,s portion is the last to be completed. He noted it was vital to enhancing Afghan economic development and security. The project,s completion would be a great deliverable for the G-8, and the U.S. had offered to help Japan finish the road, if need be. Kohno appeared unprepared on this point and said he would look into the issue.

#### Climate Change -----

¶58. (SBU) Saying Japan is proactive on climate change, not passive as some criticize, Deputy Foreign Minister Kohno noted Japan had worked toward a post-Kyoto framework,

TOKYO 00005678 014 OF 017

collaborating with the U.S. in the process. He stated Prime Minister Fukuda had carried on the Abe initiative, calling on the world to cut emissions in half by 2050. Kohno reiterated the three principles that drove Japan,s policy (all major emitters should participate; the framework should be flexible and diverse; and the framework must achieve compatibility between environmental preservation and sustainable growth) and highlighted Japan,s proposal to set up an ad hoc working group in the UN Framework Convention on Climate Change (UNFCCC)process to discuss mechanisms.

¶59. (SBU) Kohno emphasized Japan supports President Bush,s



Major Economies initiative. Japan would work closely with the White House Council on Environmental Quality and others. Kohno hoped the Major Economies process would make a constructive contribution to the UNFCCC to complete a post-Bali roadmap by end-2009. He stressed Japan's support of a sector-oriented approach such as that in the Asia-Pacific Partnership on Clean Energy and Climate (APP). The APP, he said, could be broadened and he hoped it would have an impact on the process in the UNFCCC. Kohno concluded stating the next half-year would be crucial and that he wanted continuing cooperation with the United States.

¶60. (SBU) METI DM Toyoda emphasized three points. First, Japan attempted to engage China and India bilaterally where possible and had launched cooperative activities with each. At the December 1-2 Japan-China ministerial talks, Japan encouraged China to embrace the APP approach. China, he said, wanted access to technology and finance and Japan agreed to ten model projects involving technology transfer. Toyoda stressed Japan was monitoring IPR protection in each case. Second, Toyoda emphasized the importance of innovative technology. METI had a draft plan for technological innovation to achieve "Cool Earth 50." He noted Japan's interest in developing clean coal technologies and hoped to use the Sub-Cabinet to encourage new cooperation for the G-8. Toyoda hoped as well Energy Secretary Bodman would participate in the P5 and G8 Energy Ministerials in 2008. Third, he stressed that a framework to meet the challenges of global warming must be effective, and to be effective would need to be more than what has been suggested by the European Union.

¶61. (SBU) DNSA Price noted the congruence between the U.S. and Japan on climate change and stressed the two countries need to articulate a joint vision to the G-8 and in the Major Economies process. The joint fact sheet issued during Prime Minister Fukuda's visit to Washington laid out a common approach to a post-2012 framework. The elements included a focus on technology, compatible with DM Toyoda's comments. The key question, DNSA Price noted, was how to penetrate the perceptions created by the EU and a number of NGOs that traded "binding commitments" for inclusion of the major emerging market economies in a program of action to reduce greenhouse gases. What is the value of a judgment in a possible lawsuit years later that says a country or countries did not live up to an agreement, relative to the benefits of getting India and China to act now?, Price queried.

¶62. (SBU) The USG agrees a post-2012 framework needs to involve all countries, that all countries should articulate a medium-term goal, that there needs to be flexibility in measures, and that each country would develop an environmentally effective and economically sustainable national mix of policies and measures needed to reach the medium term goal. The next question was, as each country articulated its mix, how to fit this into the international framework. The United States believes developed countries must help finance developing country efforts, but that there

TOKYO 00005678 015 OF 017

must be a connection between financing and commitment. He confirmed plans for a Major Economies meeting at the end of January in Hawaii. Treasury U/S McCormick echoed the importance of Japan and the U.S. standing together to ensure China and India are part of the commitment.

¶63. (SBU) DNSA Price asked that Japan work with the United States to develop a clean technology fund, which allows donors to determine access to financing. He also reiterated the need for Japan to support the US-EU proposal in the WTO to eliminate tariff and non-tariff barriers in 40 products that contributed to reducing GHG emissions. DNSA Price noted the inconsistency between providing concessional financing for technology, on the one hand, and governments taxing the import of those technologies. The United States welcomes voluntary liberalization of trade in such goods by individual

countries. (Note: Japan called at the September UN high level meeting for voluntary elimination of tariffs on environmentally friendly goods. End note.)

¶64. (SBU) A/S Sullivan further suggested Japan and the U.S. could influence other countries by sending a joint team to work with the OECD to develop "the economics of climate change" which OECD Secretary General Gurria had proposed as an agenda item for the upcoming OECD Ministerial. Kohno suggested it would be difficult and said Japan wanted to avoid a U.S.-Japan confrontation with the European Union. However, the issue of including all major carbon emitters must be resolved. He wanted to create a consensus with some in the G-8. Noting the similarity of this idea with A/S Sullivan's suggestion, Kohno added further discussions on a scenario for working with the OECD.

¶65. (SBU) MOF DM Shinohara pointed to the new financing mechanism called for by Japan's "Cool Earth 50" to illustrate the potential in a multilateral approach to financing, as opposed to the bilateral efforts undertaken to date. He said the U.K. and U.S. approaches on the proposed fund were somewhat different in scope and modality, but Japan is interested in further exchanging views. U/S McCormick explained a single issue remained unresolved between the two approaches. The United Kingdom had endorsed the concept of a fund supporting clean technology adoption, adaptation, and deforestation, and for political reasons wanted to discuss all three. The United States thought there should be a means to resolve this slight difference.

-----  
Bilateral Issues  
-----

Beef  
-----

¶66. (SBU) DNSA Price urged the Japanese government not to underestimate the importance of resolving the beef issue as soon as possible. The United States is looking for a "prompt and full" reopening of the Japanese market. U/S Keenum said our understanding was that the two governments had convened experts level meetings over the summer to work on a consensus document. Coming out of those talks, however, the Japanese government seemed more interested in recommending a 30-month solution which fell short of international standards. Under the OIE, Keenum continued, U.S. beef is safe to trade, provided there is effective removal of specified risk materials. The United States has implemented the necessary safeguards. In continuing to put up barriers to U.S. beef, Japan is "selectively" choosing not to abide by its WTO obligations.

TOKYO 00005678 016 OF 017

¶67. (SBU) Kohno repeated that Japan's preferred approach to resolve the beef issue is the same as that first stated at the summer 2007 bilateral experts level meetings in Tokyo: Japan wanted to recommend to Japan's Food Safety Commission (FSC) a liberalization of trade to allow import of beef from cattle up to 30 months. The government, Kohno continued, is not ready to submit a recommendation at this stage that would bring Japan into OIE compliance at a later stage. DNSA Price underscored that the United States is looking for a "date certain" on full reopening. U/S Keenum echoed the point, noting that U.S. beef is being "held hostage" to Japan's political situation. DUSTR Veroneau noted the level of frustration in Washington over this issue. Kohno offered no new information or insights. He concluded that the Japanese government might move ahead "unilaterally" toward a 30-month solution.

Postal Banking, Insurance and Express Delivery  
-----

¶68. (SBU) The U.S. delegation congratulated Japan on its efforts to privatize Japan Post. Veroneau stated adequate risk management capabilities and a level playing field, such as equal customs treatment in international express delivery, are the most important issues to address in moving forward in the privatization. MOF Deputy DG General Nakao said his ministry would carefully monitor the new organizations to ensure they maintain a proper risk management stance.

#### Pharmaceuticals and Medical Devices

-----

¶69. (SBU) Commerce U/S Padilla urged Japan not to penalize innovation by imposing low reimbursement caps on pharmaceuticals and medical devices through its "Special Re-pricing Rules for Market Expansion" measure. As Japan's population ages, it will need more innovation and not fewer medications, he said. More than 20 percent of the most popular drugs currently available on the world market are not available in Japan. MHLW's Ueda responded while the GOJ understands industry concerns, Japan faces tight fiscal constraints and must manage healthcare costs. MHLW is looking at the most equitable re-pricing policies for the 2008 revision and is considering subjecting all drugs within a comparator category to the same re-pricing guideline, Ueda explained. The Ministry welcomes industry feedback on this proposal.

#### Investment

-----

¶70. (SBU) Japan continues to seek to double the amount of foreign direct investment (FDI) coming into the country and has been cooperating with the United States to attain that goal, Toyoda stated. The U.S.-Japan Investment Initiative has helped improve Japan's business environment and the governments have sponsored three seminars to promote investment in both countries. Japan has relatively few investment treaties with other countries due to its insistence on high standards, Toyoda continued. Japan started negotiations on an investment treaty with China in March 2007 but the talks bogged down due to China's unwillingness to liberalize.

¶71. (SBU) DNSA Price suggested the United States and Japan should work together in the OECD, G-8, and other fora to ensure adequate rules are adopted to protect outward investors, particularly in developing countries. Conversely, the U.S.-Japan Business Council should launch an effort to

TOKYO 00005678 017 OF 017

educate the Japanese and American publics about the benefits of FDI to the domestic economy. A/S Sullivan noted the Heiligendamm G-8 statement on investment and the President's recent statement on the importance of foreign investment. It would be useful, he continued, if the Fukuda government reaffirmed the Koizumi and Abe goals of boosting foreign investment in Japan. He also suggested reconvening the Japan Investment Council; it has not met in over a year. Noting the U.S. is pursuing bilateral investment treaties with a number of countries, and the importance of presenting a common front in demanding high standards, for example in talks with China, he suggested it might be useful to include a comparison of our treaties in the bilateral investment dialogue. DNSA Price noted that cooperating to maintain high standards for investment agreements is important for Japanese global companies active and investing around the world, as well as for U.S. firms.

#### Antidumping Act of 1916

-----

¶72. (SBU) DFM Kohno stated a Japanese company faces a possible injunction by a U.S. court for being in violation of the Anti-Dumping Act of 1916 if the Supreme Court over-rules

the decision of the 8th Circuit Court of Appeals. The Act is inconsistent with U.S. WTO commitments. The GOJ would like the State Department to convey support for the 8th Circuit Court,s ruling to the Supreme Court. A/S Padilla replied the USG has repealed the anti-dumping act in question. However, it is not appropriate for the Executive Branch to offer an opinion to the Supreme Court if not specifically asked by the Court to do so. It is also unclear whether the Court would choose to hear the case. If the past is any indication, the odds seem quite low.

#### 100 Percent Container Scanning

-----

¶73. (SBU) METI DM Toyoda expressed concerns regarding the potential disruption of the global supply chain should the U.S. require 100 percent scanning of shipping containers. The United States has heard Japan,s concerns, but the law mandates the scanning, said U/S Padilla. The United States, he continued, will establish practical and realistic measures and timelines to implement the program. He also noted the law allows for the implementation deadline to be extended in two year increments, providing some flexibility, if warranted.  
DONOVAN